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SHAKER

SHAKER PETROLEUM INC

ANNUAL REPORT 2001

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HIGHLIGHTS

Corporate Profile

Shaker Petroleum Inc. is a Calgary based emerging oil and gas company. The Company trades on the TSX Venture Exchange under the symbol "SHK".

2001 HIGHLIGHTS

- In October 2001 Shaker closed the qualifying acquisition as a capital pool company of a non-operated working interest in the Utikuma area. In conjunction with this transaction, Shaker changed its name from Oyama Industries Ltd., issued 12,000,000 shares for gross proceeds of $1,200,000 by way of a private placement and reconstituted the board of directors with the addition of two experienced individuals in the oil and gas industry.

- In November 2001 Shaker acquired a private oil and gas company with interests in the Redwater area which provided an undeveloped land base, seismic and a core area focus. Shaker rounded out the board of directors with the addition of Sandy MacDonald, President and also added to the management team with the addition of Rick Vigrass, Vice President, Production.

- In December 2001 Shaker completed a flow-through common share issue for nearly $500,000 in gross proceeds and added Greg Adams to the management team as Vice President, Finance and CFO.

- Shaker used the engineering firm of Ashton Jenkins Mann to provide an independent reserve report as of January 1, 2002. Total proven reserves at that date were 90,833 boe (barrel of oil equivalent on a 6 to 1 basis before royalties) and total proven and probable were 175,333 boe. These reserve additions all occurred in 2001 and resulted in a finding cost for established reserves (proven plus 50% probable) of $7.12 per boe (including future costs to develop proven undeveloped reserves).

For the purposes of calculating production and unit costs, natural gas is converted to a barrel of oil equivalent using six thousand cubic feet equal to one barrel.

(dollars)	Fifteen Months Ended December 31, 2001	Year Ended September 30, 2000
Net Loss	(4,867)	(18,147)
Cash flow from operations	(149,769)	(18,147)
Petroleum and natural gas sales	34,946	-
Capital expenditures	737,044	-
Working capital at year-end	1,101,331	268,770

Annual General Meeting

The Annual Meeting of the Shareholders will be held at 1:30 p.m., June 3rd, 2002 in the Viking A Room at the Calgary Petroleum Club, 319 - 5th Avenue South West.

President's Message

I am pleased to deliver my first report to the shareholders of Shaker Petroleum Inc. ("Shaker") as President. The fiscal period ended December 31, 2001 was a year of transition for Shaker. The Company completed its major transaction in October through the acquisition of a non-operated working interest in the Utikuma area in northern Alberta. This transaction allowed us to be re-listed on the TSX Venture Exchange and begin a new direction for the Company. Shaker also completed an acquisition of a private oil and gas company which comprised undeveloped lands in what is now Shaker's first core area, Redwater, Alberta. We raised approximately $1.7 million through a private placement of common shares and a flow-through issue of common shares. We assembled a highly skilled and experienced management team with previous work relationships from other successful, growth oriented oil and gas companies.

Looking forward, we are committed to growing the Company's production to 500 barrels of oil equivalent per day by year end 2002, through the execution of a capital budget for 2002 of $4.7 million. The initial strategy for the Company is to develop predominantly light oil properties, which have the ability to provide quick cash flow. To this end, Shaker completed two acquisitions in the Redwater area, an excellent core area for a start up and one familiar to management. As discussed, the first acquisition was comprised of a small private company with 100% interests in undeveloped lands with exploitation drilling potential. The second acquisition in the Redwater area closed subsequent to year-end with production of net 7 barrels of oil per day of light oil, again with exploitation drilling potential. Shaker has recently cased its first oil well (70% net working interest) in this area. We also have been shooting seismic for gas prospects and anticipate by year-end to have both light oil and gas production.

We have chosen a two tiered growth strategy for 2002. The first component of this strategy is to acquire interests in underdeveloped properties and further exploit these properties. We have allocated $900,000 of our 2002 budget to pursue these acquisitions. The second component, and one which we believe essential, is to grow by internal generation of exploitation/development prospects. To achieve this growth through exploitation, we have budgeted 8 wells and 50 kilometres of seismic. The reason for this two tiered strategy is that although the acquisition route is the time tested way to low volatility growth, we noted that companies dedicated predominantly to this strategy tend to suffer when commodity prices are at the higher ends of the pricing cycles. Also, although the industry has been predicting a deluge of divestitures resulting from the rationalization of the recent spate of American takeovers of Canadian mid-sized companies, at the time of writing, these divestitures have been slow to materialize.

We will maintain the flexibility to reallocate a portion of our capital budget towards a significant acquisition if one is identified that meets our economic parameters. As an integral part of our corporate strategy, we will strive to operate all of our properties and maintain as high a working interest as possible. This allows us to control the pace of development of our projects and to minimize administration costs. Also we will pursue internally generated medium depth, moderate risk prospects with multi-zone potential. With the implementation of these fundamental strategies and a significant portion of our capital in place, the Company is well positioned to embark on an active drilling program for the year.

Our management team and Board of Directors have set aggressive yet realizable targets for the Company and the management team have embraced the plan for growth with a high level of enthusiasm. I would like to thank both the Board of Directors and the management team for their commitment to this exciting start up period and look forward to delivering the budget results as the year unfolds.

Sandy MacDonald
President

April 12, 2002

Operations

Principal oil and gas properties

Property	2001 Average Daily Production Rates Oil & NGL's bbls	Gas mcf	Oil & NGL's Reserve Volumes (bbls) Proved Reserves	Probable Reserves	Total Reserves	Natural Gas Reserve Volumes (mcf) Proved Reserves	Probable Reserves	Total Reserves
Redwater	-	-	53,000	71,000	124,000	-	-	-
Utilkuma	17.0	4.2	36,000	13,000	49,000	11,000	3,000	14,000

Redwater

Obtained in the Essar acquisition, this area is northeast of Edmonton and has shallow, multi-zone potential for both light oil and natural gas. Shaker currently holds 1,060 gross (742 net) acres in this area. The lands are undeveloped and are currently being evaluated for drilling locations.

Utikuma

The Utikuma area is located near Slave Lake in central Alberta. The assets consist of working interests in 24 wells, ranging from 0.035% to 8.7%. These wells were drilled in the mid 1990's and have established production histories. Currently the wells produce in the range of 4 to 80 barrels of oil equivalent per day each. The area can be accessed year round and good infrastructure, including roads, electricity and production facilities, are in place. The wells are all tied-in to nearby pipelines.

PETROLEUM AND NATURAL GAS RESERVES

The following table summarizes the evaluations of reserves and estimated future net production revenues at January 1, 2002 as determined by Ashton Jenkins Mann independent petroleum engineering consultants, in a report dated March 1, 2002. This evaluation constitutes 100% of the petroleum and natural gas reserves of the Corporation.

Oil and Natural Gas Reserves

	Oil and Natural Gas Liquids Gross	Net	Natural Gas Gross	Net
	(bbls)		(mcf)	
Proven developed producing	36,000	29,000	11,000	10,000
Proven undeveloped	53,000	43,000	-	-
Total proven reserves	89,000	72,000	11,000	10,000
Probable reserves	84,000	70,000	3,000	3,000
Total proven and probable reserves	173,000	142,000	14,000	13,000

Estimated Future Net Revenues

(Dollars)	Undiscounted	Discounted at 10%	15%	20%
Proven developed producing	776,000	525,000	453,000	400,000
Proven undeveloped	811,000	485,000	388,000	315,000
Total proven reserves	1,587,000	1,010,000	841,000	715,000
50% of probable reserves	793,000	408,000	312,000	246,000
	2,380,000	1,418,000	1,153,000	961,000

RECONCILIATION OF RESERVES

The following table summarizes the changes in reserves during the past 15th month period:

	Crude Oil and NGLs (bbls) Proven	Probable	Total	Natural Gas (mcf) Proven	Probable	Total
Balance as at September 30, 2000	-	-	-	-	-	-
Discoveries and purchases	39,158	10,000	49,158	11,284	2,000	13,284
Production	(1,158)	-	(1,158)	(284)	-	(284)
Revisions	51,000	74,000	125,000	-	1,000	1,000
Balance as at January 1, 2002	89,000	84,000	173,000	11,000	3,000	14,000

MANAGEMENT'S DISCUSSION AND ANALYSIS

For Shaker Petroleum Inc, ("Shaker" or the "Corporation") 2001 was a year of transition. In October, Shaker completed its qualifying transaction as a capital pool company consisting of a non-operated working interest in the Utikuma area in Alberta. In conjunction with the qualifying transaction, the Corporation also completed a common share private placement of $1.2 million, significantly changed the makeup of the board of directors and initiated the installment of a new management team. In the final two months of 2001, Shaker acquired a private oil and gas company which provided an undeveloped land base, seismic and a core area focus; solidified its management team; and completed a private flow-through issue of nearly $500,000.

The following discussion details Shaker's 2001 financial results compared to 2000, including its capital program and outlook. In 2001 the Corporation changed its year-end to December 31 from September 30 to allow investors to compare its results to its peers within the industry. Therefore, the results ended December 31 include fifteen months of operating results versus twelve months in 2000. This discussion should be read in conjunction with the consolidated financial statements and notes for a full understanding of Shaker's financial position and results of operations. All data is presented in Canadian dollars. For the purposes of calculating a barrel of oil equivalent, Shaker uses a factor of six to one ("6:1") for converting thousand cubic feet of natural gas to a barrel of oil equivalent.

PROPERTY AND CORPORATE ACQUISITIONS:

Shaker completed two acquisitions in 2001. The first was a non-operated working interest in a producing area known as Utikuma in Northern Alberta. The total purchase price for this acquisition was $570,274 including costs associated with the purchase, and provided the Corporation with its qualifying transaction. The second acquisition was of Essar Energy Corporation ("Essar"), a private oil and gas company. Shaker issued 1,500,000 common shares valued at ten cents per share to acquire all the outstanding shares of Essar. Essar had undeveloped lands and seismic in the Redwater area in Northern Alberta and management expertise which allowed Shaker to obtain a core area focus and help round out the management team.

NET EARNINGS AND CASH FLOW

	2001	2000
Net loss attributable to common shareholders	$(4,867)	$(18,147)
Per share	-	-
Cash flow attributable to common shareholders	$(149,769)	$(18,147)
Per share	$(0.02)	-

The Corporation had a net loss in 2001 of $4,867 versus a net loss of $18,157 in 2000 primarily due to the recognition of future income tax recovery of $158,152 from previously unrecognized tax loss carry forward balances from prior years and on the current year's loss before income taxes. This recognition occurs due to Shaker's proven reserve base in place at December 31, 2001 which should enable the Corporation to recover all prior year loss carry forwards in future years through production revenue from these reserves. Cash flow from operations is negative in 2001 due to general and administrative expenditures with small offsetting revenue as the acquisition of Utikuma closed October 24, 2001. The Essar properties are undeveloped thus have no revenue.

GROSS REVENUE

	2001	2000
Oil and liquids	$34,269	-
Per barrel	$29.59	-
Natural gas	$677	-
Per mcf	$2.38	-

Management's Discussion and Analysis

All of Shaker's 2001 production revenue is derived from the Utikuma acquisition. The production from closing date averaged 17.7 barrels of oil equivalent per day (6:1) in 2001. The Corporation's plans on how to increase this production level are covered in the outlook portion of this discussion.

ROYALTIES

	2001	2000
Oil and liquids	$6,136	-
Per barrel	$5.30	-
Percentage of revenue	17.9%	-
Natural gas	$170	-
Per mcf	$0.60	-
Percentage of revenue	25.1%	-
Total royalties	$6,306	-
Per boe (6:1)	$5.23	-
Percentage of revenue	18.0%	-

All royalties incurred in 2001 are from the Utikuma property which is primarily an oil area. There is no Alberta Royalty Tax Credit ("ARTC") available on this base production as it was purchased from a company already at their corporate limit. Any crown royalties paid on production from wells drilled on the Utikuma property subsequent to the acquisition or on any production from Shaker's currently undeveloped lands will attract ARTC in the future.

PRODUCTION EXPENSE

	2001	2000
Total production expense	$16,631	-
Per boe	$13.80	-

Production expense is high on the Utikuma property due to high water production and several pump changes occurring late in 2001.

ADMINISTRATION EXPENSE

	2001	2000
Total administration expense	$171,037	$31,759

Total administration expense increased over 2000 due to the efforts made by management to complete the qualifying transaction and also management's efforts in the final quarter of 2001 towards the creation of an operating oil and gas entity.

DEPRECIATION AND DEPLETION

	2001	2000
Depletion and depreciation	$12,100	-
Site restoration provision	1,150	-
	$13,250	-

Depletion and depreciation was incurred in 2001 due to Utikuma production. On a per barrel of oil equivalent basis, depletion expense is $10.04

TAXES

	2001	2000
Future income tax reduction	$158,152	-

Shaker recorded a reduction of future income taxes due to the recognition of loss carry forwards incurred by Shaker in prior years and current year's losses incurred by Shaker.

Currently, Shaker is not incurring cash federal income taxes and it is anticipated that, due the availability of over $1.3 million of tax pools at the end of 2001 in addition to budgeted capital expenditures for 2002, no current cash income tax liability will occur in 2002.

LIQUIDITY AND CAPITAL RESOURCES

In October 2001, Shaker issued a total of 12,000,000 units for gross proceeds of $1,200,000 by way of a private placement. Each unit consisted of a common share and warrant and entitles the holder to exercise each warrant into a common share at thirteen cents per share increasing in five cent increments to twenty-eight cents over a five year period ending October 2006. In December 2001 Shaker issued 2,350,000 shares for gross proceeds of $235,000 by way of a private placement to three of its officers. The Corporation subsequently took back shareholder loans of $225,000. In December 2001, Shaker also issued 1,500,000 shares as consideration for the acquisition of Essar Energy Corporation. Also in December 2001, 625,000 share options were exercised at ten cents per share and the remaining 75,000 expired.

Subsequent to year-end, the Corporation issued 12,000,000 units for gross proceeds of $1,200,000 by way of a private placement. Again, each unit consists of a common share and a warrant and entitles the holder to exercise each warrant into a common share at thirteen cents per share increasing in five cent increments to twenty-eight cents over a five year period ending October 2006.

Shaker also issued 2,760,000 share options on December 31, 2001 to three of its officers. Note 6 of the financial statements contains a description of Shaker's share option plan.

The Corporation had no debt outstanding at December 31, 2001. The use of debt in the future will depend on availability and requirements. It is Shaker's strategy to prudently use debt to supplement equity in funding its ongoing capital program.

CAPITAL EXPENDITURES

	2001	2000
Corporate acquisition	$83,048	-
Property acquisition	570,274	-
Seismic and geological evaluation	56,713	-
Land acquisition and retention	195	-
Well drilling, completion, equipping	26,814	-
	$737,044	-
Finding cost per boe *		
Proven	$10.43	-
Established (proven + 1/2 probable)	$7.12	-

*including costs to develop proven undeveloped reserves

Capital expenditures totaled $737,044 in 2001 with the largest expenditure on a non-working interest in the Utikuma area followed by the Essar acquisition. All well expenditures were in the Utikuma area and seismic expenditures in the Redwater area.

Management's Discussion and Analysis

ACCOUNTING STANDARD CHANGES

In 2002 the Corporation will be required to adopt new Canadian accounting standards relating to stock based compensation and other stock based payments to non-employees. All prior grants which are currently outstanding have been to employees and the Corporation does not expect the adoption of the new standard to have a material impact on the Corporation's financial condition or results of operations. The Corporation intends to account for its stock based compensation using the intrinsic value method.

BUSINESS ENVIRONMENT AND OUTLOOK

The oil and natural gas industry inherently has many risks associated with it. The risks can be summarized in terms of economic, financial, cost of capital, environmental and human resource risk. Economic risk is the risk of not finding and producing reserves at a cost which produces an economic return. Financial risk consists of not marketing production at a reasonable price given market conditions. Cost of capital is the risk associated with Shaker's inability to obtain capital to fund its activities at a reasonable cost. Environmental risk is the risk of carrying out operations with the potential for adverse impact upon the environment. Finally, human resource risk is the risk of not having access to expertise which will allow Shaker to grow and prosper.

Shaker has put together a team of individuals providing the Corporation with a level of operational and business expertise sufficient to mitigate these risks. The Corporation has also put in place a business strategy to mitigate these risks. In its initial stage of operations, Shaker intends to concentrate on shallow, multi-zone areas. Potential areas must have available lands to allow expansion and access to infrastructure to allow successful wells to be placed on production in a timely manner. Redwater is the Corporation's first "core area" and satisfies these criteria.

Shaker has set a capital budget for 2002 of $4.7 million with a target exit rate at December 31, 2002 of 500 barrels of oil equivalent per day. The budget contemplates an 8 well shallow, multi-zone drilling program, predominantly in the Redwater area of Alberta, consisting of both light oil and natural gas targets. The Corporation also intends to pursue property acquisitions that are in line with its operational and financial capabilities.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF
SHAKER PETROLEUM INC.

The accompanying financial statements and all other financial information presented in this annual report are the responsibility of Shaker's management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management has developed and maintained systems of internal accounting controls, policies and procedures in order to provide for the safeguarding of assets and preparation of relevant, reliable and timely financial information.

External auditors, appointed by the shareholders, have examined the financial statements. The Audit Committee reviews these statements with management and the auditors and reports to the Board of Directors who approve the financial statements.

"Sandy MacDonald"
President

"Gregory G. Adams, CA"
Vice President, Finance
& Chief Financial Officer

March 12, 2002

Auditors' Report to Shareholders

We have audited the consolidated balance sheets of Shaker Petroleum Inc. as at December 31, 2001 and September 30, 2000 and the consolidated statements of operations and deficit and cash flows for the fifteen month period ended December 31, 2001 and the year ended September 30, 2000. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and September 30, 2000 and the results of its operations and its cash flows for the fifteen month period ended December 31, 2001 and the year ended September 30, 2000 in accordance with Canadian generally accepted accounting principles.

"KPMG LLP"
Chartered Accountants

Calgary, Canada
March 12, 2002

CONSOLIDATED BALANCE SHEETS

Shaker Petroleum Inc.
December 31, 2001 and September 30, 2000

	2001	2000
Assets		
Current assets:		
Cash	$984,509	$268,770
Accounts receivable	120,169	-
Temporary investments (note 3)	380,000	-
	1,484,678	268,770
Capital assets (note 5)	724,944	-
Future income tax asset	35,787	-
	$2,245,409	$268,770
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$383,347	$20,753
Future site restoration costs	1,150	-
Shareholders' equity:		
Share capital (note 6)	2,282,116	439,354
Deficit	(196,204)	(191,337)
	2,085,912	248,017
Share purchase loans (note 6)	(225,000)	-
	1,860,912	248,017
Commitment (note 6)		
Subsequent events (note 10)		
	$2,245,409	$268,770

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Christina Fehr"
Director

"Sandy MacDonald"
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Shaker Petroleum Inc.
Fifteen months ended December 31, 2001 and year ended September 30, 2000

	2001	2000
Revenue:		
Oil and natural gas	$34,946	$ -
Interest revenue	9,259	13,612
Royalties	(6,306)	-
	37,899	13,612
Expenses:		
Production	16,631	-
Depletion and depreciation	13,250	-
General and administrative	171,037	31,759
	200,918	31,759
Loss before income taxes	(163,019)	(18,147)
Future income tax reduction	158,152	-
Net loss	(4,867)	(18,147)
Deficit, beginning of period	(191,337)	(173,190)
Deficit, end of period	$(196,204)	$(191,337)
Net loss per share		
Basic	$ -	$ -
Diluted	$ -	$ -

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shaker Petroleum Inc.
Fifteen months ended December 31, 2001 and year ended September 30, 2000

	2001	2000
Cash provided by (used in):		
Operations:		
Net loss	$(4,867)	$(18,147)
Non-cash items:		
Depletion and depreciation	13,250	-
Future income tax reduction	(158,152)	-
	(149,769)	(18,147)
Change in non-cash working capital	55,124	16,473
	(94,645)	(1,674)
Financing:		
Proceeds from issue of common shares, net of issue costs	1,840,667	-
Increase in share purchase loan	(225,000)	-
Increase in temporary investments	(380,000)	-
Change in non-cash working capital	128,877	-
	1,364,544	-
Investment:		
Expenditures on capital assets	(653,996)	-
Proceeds from Essar Energy Corporation acquisition (note 4(b))	40,516	-
Change in non-cash working capital	59,320	-
	(554,160)	-
Increase (decrease) in cash	715,739	(1,674)
Cash, beginning of period	268,770	270,444
Cash, end of period	$984,509	$268,770

Cash is defined as cash and cash equivalents.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shaker Petroleum Inc.
Fifteen months ended December 31, 2001 and year ended September 30, 2000

1. Basis of presentation:
Shaker Petroleum Inc. (formerly Oyama Industries Ltd.) (the "Corporation") is incorporated on under the provisions of the Business Corporations Act (Alberta). The Corporation is engaged in the business of exploration, development and production of petroleum and natural gas.

These financial statements include the accounts of the Corporation and its wholly owned subsidiary.

2. Significant accounting policies:
The financial statements of the Corporation are prepared in accordance with generally accepted accounting principles in Canada and reflect the policies as described below. Management has made estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses in preparation of the consolidated financial statements. Such estimates primarily relate to unsettled transactions and events as of the date of the consolidated financial statements. Accordingly, actual results may differ from estimated amounts but management does not believe such differences will materially affect the Corporation's financial position or results of operations. Significant accounting policies are summarized as follows:

(a) Capital assets:

(i) Capital costs:

The Corporation follows the full cost method of accounting for oil and natural properties whereby all costs related to the acquisition, exploration and development of oil and natural gas reserves are capitalized into separate country cost centres. Costs include lease acquisition, lease maintenance on non-productive lands, geological and geophysical costs, the costs of drilling both productive and non-productive wells, costs of equipment and facilities and also the cost of related overhead. Proceeds on disposal of properties are deducted from capitalized costs without recognition or profit or loss except where such disposal constitutes a major portion of the Corporation's reserves.

(ii) Depletion and depreciation:

Capital costs, excluding costs relating to unproven properties, are depleted using the unit-of-production method based on gross proven reserves as determined by independent engineers. In determining its depletion base, the Corporation includes estimated future costs to be incurred in developing proven reserves and excludes the cost of unproven properties. Gas volumes are converted to equivalent units of oil on the basis of six thousand cubic feet of gas to one barrel of oil. Depreciation is provided on a thirty percent declining balance basis for other equipment.

(iii) Ceiling test:

In applying the full cost method of accounting, capitalized costs including provision for future development expenditures less accumulated depletion and depreciation are restricted from exceeding a net recoverable amount equal to the estimated undiscounted future net revenues, based on current prices and costs, derived from proven reserves, less the aggregate estimated future site restoration costs, general and administrative, financing and income tax costs plus the lower of cost and estimated fair value of unproven properties. Capitalized costs in excess of this ultimate recoverable amount are charged to earnings.

(b) Future site restoration costs:

Provision for future site restoration costs are provided on a unit-of-production basis using estimates determined by management in consultation with the Corporation's engineers, based on current regulations, costs, technology and industry standards. The annual charge is included in depletion and depreciation expense and actual restoration costs are charged to the provision as incurred.

(c) Temporary investments:

Temporary investments are comprised of holdings in publicly traded companies. These investments are carried at cost and a write-down recorded for any decline in market value.

(d) Income taxes:

Effective October 1, 2000 the Corporation adopted the liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recognized based on the estimated future tax effects of temporary

differences in the carrying value of assets and liabilities in the financial statements as compared to its tax bases, using income tax rates substantively enacted on the balance sheet date. The effect of the change in income tax rates on the future income tax assets and liabilities is recognized in income in the period of the change.

Prior to adoption of this new accounting standard, income tax expense was determined using the deferral method. The new policy has been applied retroactively, without restating the financial statements of any prior periods. There has not been any change in the Corporation's deficit or future income taxes as a result of adopting the new income tax accounting standard.

(e) Interest in joint ventures:

Substantially all of the Corporation's oil and gas exploration, development and production activities are conducted jointly with others and, accordingly, the financial statements reflect only the Corporation's proportionate interest in such activities.

(f) Flow-through shares:

Resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with current tax legislation. Share capital is reduced by the estimated cost of the renounced tax deductions when the shares are issued.

(g) Stock-based compensation plan:

The Corporation has a stock option plan which is described in note 6. No compensation expense is recognized for this plan when options are issued. Any consideration received on exercise of stock options is credited to share capital.

(h) Per share amounts:

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options and warrants would be used to purchase common shares at the average price during the period. The weighted average number of shares outstanding is then adjusted by the net change. In computing diluted net earnings per share, no shares were added to the weighted average number of common shares outstanding during the periods ended December 31, 2001 and September 30, 2000 for the dilutive effect of employee stock options. The Corporation has adopted this calculation retroactively with no impact on the prior year.

3. Temporary investments:

The Corporation received 273,381 common shares valued at $1.39 per share of a publicly traded company in exchange for the issuance of 3,800,000 common shares. The Corporation reserves the right to put the shares back to the acquiring company at the original value and therefore the shares are held at cost.

4. Acquisitions:

(a) Effective October 24, 2001, the Corporation acquired certain oil and gas interests for $570,274, net of closing adjustments. The acquisition of these properties completed the Corporation's major transaction requirement as a Capital Pool Corporation under the regulations of the Alberta Securities Commission and the TSX Venture Exchange.

(b) In November 2001, the Corporation acquired all of the issued and outstanding shares of Essar Energy Corporation ("Essar"), a private corporation engaged in the exploration for and development of petroleum and natural gas in Alberta. The transaction was recorded at its fair value with 1,500,000 common shares offered in exchange at a value of $0.10 per share. The acquisition was accounted for by the purchase method of accounting. The following table summarizes the allocation of the purchase price to the net assets of Essar effective as at November 28, 2001.

Net assets acquired:	
Cash	$40,516
Accounts receivable	4,761
Accounts payable	(3,865)
Capital assets	83,048
Future income tax asset	25,540
Total consideration	$150,000

Notes to Consolidated Financial Statements

5. Capital assets:

	Cost	Accumulated and Depreciation	Accumulated Depletion Net Book Value
Oil and natural gas properties	$724,323	$12,100	$712,223
Other equipment	12,721	-	12,721
	$737,044	$12,100	$724,944

Costs of $131,000 in 2001 (2000 - $nil) relating to undeveloped land have been excluded from the Corporation's depletion base. Included in depreciation and depletion is $1,150 (2000 - $nil) of site restoration for the period ended December 31, 2001.

6. Share capital:

(a) Authorized:

Unlimited number of voting common shares

(b) Issued and outstanding:

	Number of Shares	Amount
Common shares:		
Balance at September 30, 2000 and 2001	7,000,000	$439,354
Issued for cash	10,550,000	1,055,000
Issued for marketable securities	3,800,000	380,000
Issued for acquisition of Essar Energy Corporation (Note 4(b))	1,500,000	150,000
Exercise of stock options	625,000	62,500
Issue of flow-through shares	4,146,837	497,620
Tax effect of flow-through shares	-	(214,474)
Issue costs net of tax of $66,569	-	(87,884)
Balance at December 31, 2001	27,621,837	$2,282,116

(c) Share purchase loans:

Share purchase loans of $225,000 (2000 - $nil) are due from certain officers of the Corporation for the purchase of 2,250,000 common shares at a price of $0.10 per share. These loans are each repayable without interest, in three payments of $25,000 each on or before January 31, 2005 and December 31, 2006 and 2007. These loans are secured by the underlying shares.

(d) Warrants:

As at December 31, 2001 there were 12,000,000 (2000 - nil) share purchase warrants outstanding issued in conjunction with a private placement in October 2001. Each warrant is exercisable into one common share at an exercise price of $0.13 per share increasing in $0.05 increments to $0.28 per share over a five year period. No warrants have been exercised as at December 31, 2001. The warrants expire October 2006.

(e) Stock options:

The Corporation's stock option plan provides for granting of options to directors, employees and consultants to a maximum of ten percent of the total issued and outstanding common shares of the Corporation. At December 31, 2001 there were 2,760,000 (2000 - 700,000 at $0.10) options outstanding at an exercise price of $0.10. These options have a term of five years to expiry and vest 30% as of the date of grant, 20% on each of the first two anniversary dates and 15% on the third and fourth anniversary dates. Options totaling 2,760,000 were granted during the year with 625,000 exercised all at $0.10 per share. A total of 75,000 options expired during the year at $0.10. As of December 31, 2001 828,000 options are exercisable at a weighted average price of $0.10 (2000 - 700,000 at $0.10).

(f) Flow-through shares:

At December 31, 2001, the Corporation had unspent commitments of $484,159 (2000 - $nil) to be spent on qualifying expenditures.

7. **Income taxes:**

(a) Income tax expense differs from the amount that would have been expected if the reported pre-tax income was subject to the combined Federal and Provincial tax rate for the year of 43.1% (2000 - 44.6%). The principal difference between such "expected" income taxes and the amount actually expensed is as follows:

	2001	2000
Computed income tax recovery	$(70,261)	$(8,166)
Non-deductible crown payments	2,149	-
Valuation Allowance (reduction)	(90,040)	8,166
	$(158,152)	$ -

(b) At December 31, 2001, the components of the future tax asset are as follows:

Future income tax liabilities:	
Capital assets	$(197,503)
Future income taxes assets:	
Operating losses	180,628
Share issue costs	52,662
	233,290
	$35,787

(c) As at December 31, 2001, the Corporation has non-capital losses of $440,000 which may be carried forward to reduce future taxable income. The future tax benefit of these losses has been recognized in these financial statements. These losses expire in 2009.

8. Financial instruments:

(a) Credit risk management:

Accounts receivable include amounts receivable for natural gas and crude oil sales. These sales are generally made to large, credit worthy purchasers. The Corporation views the credit risk on these items as normal.

(b) Fair value:

The carrying value of cash, accounts receivable and accounts payable approximate their fair values due to their short-term to maturity.

9. Related party transactions:

During the period ended December 31, 2001 payments totaling $142,816 (2000-$18,969) were made to a director and the secretary of the Corporation. These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

10. Subsequent event:

In January 2002, the Corporation issued 12,000,000 units pursuant to a private placement. Each unit consists of one common share and one warrant with each warrant entitling the holder to acquire one common share for a period of five years at an exercise price of $0.13 per share during the first two years, $0.18 in the third year, $0.23 in the fourth year and $0.28 in the fifth year.

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President, Macon Resources Ltd.
President, Framfield Oil and Gas Ltd.
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President, Shaker Petroleum Inc.

Richard Clark
Partner, Gowling Lafleur Henderson LLP

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